

Message Text

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ACTION ARA-14

INFO OCT-01 IO-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-06 CEA-01 PA-02 PRS-01 /113 W
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FM AMEMBASSY KINGSTON
TO SECSTATE WASHDC 9377
INFO AMEMBASSY BRIDGETOWN
AMEMBASSY GEORGETOWN
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AMEMBASSY PORT OF SPAIN
USMISSION USUN NEW YORK

UNCLAS SECTION 1 OF 2 KINGSTON 0518

E.O. 11652: N/A
TAGS: EFIN, EAID, JM
SUBJECT: PUBLIC'S REACTION TO JAMAICA'S DEVALUATION

REF: KINGSTON 0326

SUMMARY & COMMENT:

THE MAN-IN-THE-STREET WAS GENERALLY CRITICAL OF THE DEVALUATION OF THE JAMAICAN DOLLAR AND FEARED THE EFFECT IT WOULD HAVE ON INCREASED PRICES WITH NO CORRESPONDING INCREASE IN INCOME. MOST LEADING BUSINESSMEN AND NEWSPAPER COMMENTATORS REALIZE THAT THE JAMAICAN DOLLAR WAS OVER-VALUED, NOTING THAT THE DEVALUATION WOULD STIMULATE NON-TRADITIONAL EXPORTS. HOWEVER, THERE WAS WIDESPREAD CONCERN THAT ANY REAL BENEFIT WOULD BE OFFSET IN LARGE PART BY HIGHER COSTS OF IMPORTED RAW MATERIALS AND ENSUING LABOR DEMANDS FOR WAGE INCREASES, AND THAT THIS DEVALUATION WOULD BE FOLLOWED BY OTHERS.

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WARNINGS BY THE NATIONAL WORKERS UNION (AFFILIATE OF THE RULING PNP) THAT RECENT WAGE INCREASES HAVE NOT BEEN SUFFICIENT TO MATCH PRICE INCREASES TRIGGERED BY THE DEVALUATIONS PORTEND A NEW ROUND OF WAGE DEMANDS THAT WILL FURTHER FEED INFLATIONARY PRESSURES.

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1. THE DEVALUATION OF THE JAMAICAN DOLLAR ANNOUNCED ON JANUARY 13 HAS MET WITH MIXED REACTION FROM ALL SECTIONS. THE MAN-IN-THE-STREET EXPRESSED CONCERN AT THE EFFECTS OF HIGHER PRICES OF BASIC GOODS. A SHOPKEEPER IS ONE OF THE POORER AREAS OF THE CITY SAID THE DEVALUATION WILL HAVE A SERIOUS IMPACT ON HIS BUSINESS, AND THAT HE MIGHT EVENTUALLY HAVE TO CLOSE DOWN. THE PRIVATE SECTOR ORGANIZATION OF JAMAICA (PSOJ) ISSUED A STATEMENT URGING ALL BUSINESSMEN AND WOMEN NOT TO BECOME DESPONDENT, BUT TO WORK EVEN HARDER SO THAT THE CHANGE TO A NEW PRICE STRUCTURE IS BROUGHT ABOUT AS SMOOTHLY AS POSSIBLE. THE STATEMENT SAID THAT IN ORDER TO MEET THIS CRISIS WE WILL HAVE TO INCREASE PRODUCTION AND EXPORTS.

2. A GLEANER SURVEY OF THE MAJOR BUSINESS ORGANIZATIONS IN JAMAICA REVEALED THE FOLLOWING MIXED RESPONSE: THE PRESIDENT OF THE JAMAICA EXPORTERS' ASSOCIATION, LASCELLES CHIN, SAID THAT THE DEVALUATION WILL MAKE JAMAICAN EXPORTS APPROXIMATELY 5 PERCENT MORE COMPETITIVE, BUT, ON THE OTHER SIDE OF THE COIN, IT WOULD VASTLY INCREASE THE COST OF LIVING. THE PRESIDENT OF THE JAMAICA CHAMBER OF COMMERCE, MRS. AVIS HENRIQUES, SAID THE DEVALUATION WOULD HAVE AN ADVERSE EFFECT ON THE COST OF LIVING AND THAT JAMAICA SHOULD HAVE BEEN TOLD OF THE CONDITIONS SURROUNDING THE IMF LOAN.
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THE VICE PRESIDENT OF THE SMALL BUSINESSES' ASSOCIATION, MRS. DAPHNE GRAHAM, SAID WE STILL HAVE NOT GOTTEN OVER THE LAST DEVALUATION. THIS WILL DEFINITELY HAVE TO BE PASSED ON TO THE CONSUMERS AND WILL FURTHER INCREASE THE COST OF LIVING. THE PROSPECTS FOR THE SMALL MANUFACTURER COMING FROM THE VERY SUCCESSFUL EXPOSITION LAST SEPTEMBER WILL BE WHITTLED AWAY BY THE DEVALUATION AS THERE WILL BE AN INCREASE IN THE COST OF RAW MATERIALS. SMALL BUSINESSES WHICH HAVE JUST FINISHED NEGOTIATING FOR FINANCING TO SUPPLY ORDERS COMING OUT OF THE EXPOSITION WILL HAVE TO RETURN TO THE BANK TO REQUEST MORE MONEY.

3. THE GLEANER EDITORIAL SAID "IT IS UNFORTUNATE THAT THE COUNTRY HAD NOT BEEN TOLD WHAT WERE ALL THE CONDITIONS AND THE TARGETS OF THE IMF AGREEMENT." IT WAS A GLEANER COLUMNIST, WILMOT PERKINS, WHO ALERTED THE COUNTRY OF THE SUSPENSION OF THE IMF AGREEMENT. THE EDITORIAL STATED THAT "DEVALUATION OF THE CURRENCY CAN OFFER ENCOURAGEMENT TO THE COUNTRY'S EXPORT SECTOR AS THE LOWER PRICES SHOULD MEAN AN INCREASE IN EXPORT VOLUMES. HOWEVER, AS THE DEMAND FOR JAMAICA'S TRADITIONAL EXPORTS (THE PRICES OF WHICH ARE DETERMINED IN THE WORLD MARKET)

ARE LESS INFLUENCED BY PRICE CHANGES, THE OVERALL EFFECT
OF DEVALUATION ON THESE EXPORTS HAS BEEN MINIMAL.
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IN THE NON-TRADITIONAL EXPORT SECTORS, SUCH AS MANUFACTURING,
WE WOULD EXPECT EXPORTERS TO OFFER LOWER EFFECTIVE PRICES,
THUS IMPROVING THEIR COMPETITIVENESS. THE REAL DANGER,
HOWEVER, IS THAT AS THE IMPORT CONTENT OF THIS SECTOR IS
LARGE AND WILL BE AFFECTED BY THE HIGHER COST OF IMPORTED
RAW MATERIALS, ANY REAL BENEFITS WOULD BE OFFSET BY THE
INEVITABLE INCREASES IN ADDITION TO HIGHER LABOR COSTS
AND OVERHEADS." THE EDITORIAL MENTIONED TWO INESCAPABLE
CONSEQUENCES OF THE DEVALUATION. THE FIRST IS THE HIGHER
RATE OF INFLATION IN THE COST OF LIVING RESULTING FROM
THE HIGHER PRICES OF ESSENTIAL AND OTHER IMPORTS. THE
OTHER IS A WORSENING OF THE RATE OF UNEMPLOYMENT AS A
CONSEQUENCE OF THE PROPOSED INCREASE OF 20 PERCENT IN THE
NATIONAL MINIMUM WAGE (THE NATIONAL MINIMUM WAGE WAS
INCREASED FROM \$20.00 TO \$24.00), WHICH MAY WELL LEAD TO
TENSIONS OVER PAY STRUCTURE, PARTICULARLY IN SMALLER
INDUSTRIES. THE EDITORIAL NOTED THAT IT WILL NOW COST
MORE TO SERVICE OUR NATIONAL EXTERNAL DEBT, SO THERE MAY
WELL BE HIGHER TAXATION TO COME.

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4. MRS. VIE MENDES, PRESIDENT OF THE NATIONAL CONSUMERS LEAGUE, SAID "THE STATE OF THE NATION IS THE STATE OF THE CONSUMER, HENCE DEVALUATION COMES AS A TERRIFIC BLOW TO ALL CATEGORIES OF CONSUMERS - HOUSEWIVES, LANDLORDS, AND ALL TYPES OF PURCHASERS OF GOODS AND SERVICES. THERE IS NO DOUBT THAT THIS OVERALL IMPACT OF DEVALUATION AND SHORTFALL IN REVENUE TO IMPORT WILL CAUSE WHOLESAL ESCALATION OF CONSUMER GOODS."

5. MR. WINSTON MAHFOOD, PRESIDENT OF THE JAMAICA MANUFACTURERS ASSOCIATION SAID THAT "IT APPEARS THAT THE DEVALUATION IS JUSTIFIED IN LIGHT OF THE FACT THAT OUR CURRENCY IS OVER-VALUED ON THE WORLD MARKET." HE SAID THAT "THE SEVERAL DEVALUATIONS OF THE JAMAICAN DOLLAR WHICH HAVE TAKEN PLACE RECENTLY ARE SYMPTOMS OF THE DISEASE OF A SICK ECONOMY. THERE MAY BE MARGINAL BENEFITS TO EXPORTERS WHICH WILL ACCRUE AS A RESULT OF THE DEVALUATION. HOWEVER, THESE BENEFITS COULD BE EASILY ERODED BY THE PRESSURE OF LOCALLY-CREATED INFLATION BROUGHT ON BY UNREALISTIC CLAIMS, INCREASED UTILITY COSTS AND SERVICES, AND THE LIKE."

6. OPPOSITION SPOKEMAN ON FINANCE SENATOR BASIL BUCK SAID THE JAMAICAN PEOPLE FACE A 30 PERCENT INFLATION RATE IN 1978. HE SAID A TOTAL OF \$12 MILLION WOULD BE NEEDED TO SUBSIDIZE THE FULL IMPACT OF ALL COSTS FLOWING ON BASIC FOODS FROM THE DEVALUATION. THIS AMOUNT WAS COMFORTABLY WITHIN THE REACH OF THE \$15 MILLION THE PRIME MINISTER SAID HE WOULD SPEND TO SUBSIDIZE PRICES OF BASIC FOODS.

7. MR. RUSSELL LEWARS, GENERAL MANAGER OF THE JAMAICA HOTEL AND TOURIST ASSOCIATION SAID THE DEVALUATION WILL BE BENEFICIAL TO THE HOTEL TRADE, BUT THIS BENEFIT WOULD UNCLASSIFIED

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BE OFFSET TO SOME EXTENT BY INCREASED PRICES OF FOOD, FURNISHINGS AND OTHER EXPENSES. IN THE AREA OF COMPETITION IN THE REGION, THE TOURIST WILL BE BETTER OFF COMING TO JAMAICA AS HIS DOLLAR WOULD STRETCH FURTHER. WHILE ALL THE HOTELS QUOTE IN U.S. DOLLAR, THE HOTELS WOULD BE ABLE TO MAKE A BIT MORE WHEN THEY CASH THOSE DOLLARS AT THE BANK.

8. OPPOSITION LEADER EDWARD SEAGA SAID THAT THE FURTHER DEVALUATION OF THE JAMAICAN DOLLAR "IS THE FIRST IN A NEW SERIES IN WHICH THERE WILL BE STILL FURTHER DEVALUATIONS

UNTIL THE PRESENT DUAL RATE OF EXCHANGE IS REPLACED BY A SINGLE RATE. THIS MEANS THAT THE BASIC RATE OF THE JAMAICAN DOLLAR WHICH WAS DEVALUED BY 15 CENTS WILL HAVE TO BE DEVALUED BY AT LEAST A FURTHER 30 CENTS IN THE NEAR FUTURE UNTIL IT EQUALS THE SPECIAL RATE WHICH NOW STANDS AT J\$1.35 - US\$1.00." HE SAID THAT NEW AGREEMENTS WITH IMF WOULD ALSO FAIL UNTIL THE GOJ ACCEPTS THAT THE BASIC PROBLEM IS "NOT ECONOMIC BUT POLITICAL AND IDEOLOGICAL." HE ALSO PREDICTED WIDESCALE PRICE INCREASES AS A RESULT OF THE DEVALUATION AND THAT THE JAMAICA STATE TRADING CORPORATION WOULD NOT BE ABLE TO CUSHION PRICES FOREVER.

9. THE NATIONAL WORKERS UNION (NWU) AN AFFILIATE OF THE PEOPLE NATIONAL PARTY (PNP) HAS CALLED FOR DETAILS OF THE AGREEMENT WITH THE IMF, AND FOR AN IMMEDIATE AND COMPREHENSIVE INVESTIGATION TO TRACE THE RESPONSIBILITY FOR FAILURE TO MEET THE IMF DOMESTIC ASSETS TEST. IN A STATEMENT THE NWU SAID THE DEVALUATION WAS A TERRIBLE BLOW TO THE NATION AS A WHOLE AND THE WORKERS IN PARTICULAR. IT SAID THAT THE WAGE INCREASES THAT WERE OBTAINED WERE NOT NEARLY SUFFICIENT TO MATCH THE INFLATIONARY INCREASES TRIGGERED BY THE DEVALUATIONS IN THE RECENT PAST. THE TRADES UNION CONGRESS (TUC), ALSO AN AFFILIATE OF THE PNP, IN A RELEASE SAID THE DEVALUATION WILL ADD MORE WEIGHT

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TO "THE INFLATIONARY PRESSURES BUILDING UP FROM WAGE DEMANDS, RISING CONSUMER PRICES, THE RISING COSTS OF IMPORTING ESSENTIAL RAW MATERIALS AND PAINFULLY SLOW PRODUCTIVITY GAINS."

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